

PERAC AUDIT REPORT



Northampton Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 11-070-34



TABLE OF CONTENTS

Letter from the Executive Director.....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	6
Statement of Changes in Fund Balances.....	7
Statement of Income.....	8
Statement of Disbursements.....	9
Investment Income.....	10
Statement of Allocation of Investments Owned.....	11
Supplementary Investment Regulations.....	12
<u>Notes to Financial Statements:</u>	
Note 1 – The System.....	13
Note 2 – Significant Accounting Policies	14
Note 3 – Supplementary Membership Regulations.....	15
Note 4 – Administration of the System.....	18
Note 5 – Actuarial Valuation and Assumptions.....	19
Note 6 – Membership Exhibit.....	20

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

HENRY G. BRAUER | KENNETH J. DONNELLY | ERIC A. KRISS | JAMES M. MACHADO | DONALD R. MARQUIS

JOSEPH E. CONNARTON, *Executive Director*

July 29, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Northampton** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2001** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Northampton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. **Annual Statement**

The equities, realized gains, unrealized gains, realized losses and unrealized losses on the investment income page of the Annual Statement could not be balanced to the supporting investment schedules. This leads to a different amount of excess income going to the Pension Reserve Fund (PRF), thereby affecting the PRF balance.

Recommendation:

The five categories from the investment income page of the Annual Statement identified above should be reviewed and the correct numbers should be applied on a revised investment income page, so that the CY 2004 Annual Statement will reflect the numbers that agree with the investment schedule.

Board Response:

Our custodial bank, IBT, and our software vendor, TACS, handle spinoffs in a different manner. We have a few investments that do frequent spinoffs to the same subsidiary.

We have requested changes from both IBT and from TACS, so that the reports will reconcile. We will continue to look for ways to improve consistency. The detail schedules in the annual report come from the TACS system, and the general ledger pages conform to the IBT balances. The detail columns in the TACS report do not conform to the totals in the general ledger.

The general ledger totals are correct, and the PRF balance is correct.

2. **Short Term Investments**

Short-term investments of \$2,207,893.37, as reported by Investors Bank and Trust on the custodial report do not appear as a short-term investment line item in the Annual Statement or in the Trial balance. Short-term investments are divided between Cash and Short-term investments in the Annual Statement and in the Trial Balance.

Recommendation:

The Annual Statement and supporting schedules must reflect the custodial bank's definitions of cash including short-term investments.

Board Response:

IBT cash will be reported as short-term investments.

Northampton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

3. Accounting Descriptions

The auditors observed that journal entries contained improper descriptions. For example, all descriptions for all expense entries (e.g., travel, administrative expense, legal expenses) in 2003 were described as Accounts Payable. It was difficult to determine, from reviewing Journal Entries and the General Ledger Report, the purpose of these accounting entries. Multiple accounting entries are not specifically identified; rather, they are batched together.

Recommendation:

Each journal entry must be descriptive enough so that the reader of the financial records can determine the purpose of the financial transaction. In addition, when multiple entries are necessary, each value must be described rather than summarized into one total.

Board Response:

The Board considers the warrant, and its attached invoices, to be the official record. Subledger reports can be provided to auditors to detail the entries in the ledger. General ledger entries will continue to reflect the totals from each warrant.

4. Annuity Reserve Interest

In CY 2002, the Annuity Reserve Fund Interest Calculation was understated by \$7,958.39. The journal entry made was \$138,026.20, the same as in CY 2001, instead of \$145,984.59. Additionally, the amount of \$7,958.39 also accrued interest of \$484.67 through CY 2004.

Recommendation:

A journal entry of \$8,443.06 is necessary to correct the Annuity Reserve Fund balance. The adjusting entry would credit the Annuity Reserve Fund and debit the Pension Reserve Fund. This entry should be recorded in January 2005.

Board Response:

A journal entry has been made to correct the error in the annuity reserve balance.

5. Affidavits

Affidavits are sent out annually to the retirees. The affidavits are not required to be certified by a notary. In a couple of instances, a questionable signature from a retiree and a named power of attorney were identified. The retiree signature appeared to be different and there was no signature on file for the named power of attorney. In addition, three retirees have been sent second notices for failing to comply with the affidavit process.

Northampton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

There should be some certification of a retiree's signature; more importantly, any power of attorney, legal guardianship, representative or any other legally binding declaration should have the signature of the named legal representative in the retiree's file. In addition, the pension checks should be stopped for the three retirees who failed to comply with the affidavit process.

Board Response:

The Board will revise the payroll certification process to require notarizing for those signing under power of attorney. Other retirees will not be required to notarize their payroll certification. Power of attorney cases, as well as out-of-state retirees, will be verified against the social security website at least once per year.

6. Contribution Rates

- A. Although the sample tested revealed errors that need correction, there may be other issues with the membership contribution rates, as referenced in the report of actuarial data for active and retiree/survivor generated by PERAC. This PERAC report has not been reviewed for any other possible errors that have been identified.
- B. The Northampton Housing Authority reports to the Northampton Retirement System total member deductions without disclosing the salaries for the Director to check the contributions withheld.

Recommendation:

- A. The membership records should be reviewed by the Director to determine the accuracy of the PERAC report of actuarial data for active and retiree/survivor contribution rates. This review should also include the 2% over \$30,000 contributions.
- B. The Northampton Housing Authority must provide the retirement system with information consistent with M.G.L. c. 32 § 22. Member information should include: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; 6) membership date; and 7) any other member information deemed appropriate.

Board Response:

Of the members noted by the auditors as being at the wrong rate, all are at the correct rate. Some needed corrections to their start dates.

The administrator has requested a change in the payroll reports from the Northampton Housing Authority, and they have agreed to revise the reports.

Northampton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

7. **Filing System**

Retirement System files (inactive retirees, disability records, membership cards) are co-mingled with other city department files in an unlocked area in the basement of City Hall.

Recommendation:

The Retirement System should reorganize its filing system and make sure all retirement data is locked at the end of the day as well as protected from fire or flood damage. The Retirement System is obligated to protect active and retired members files (these files contain personal data including social security numbers, pay schedules, bank account numbers, military records, birth records, etc.). PERAC memorandum #19/2003, dated June 9, 2003, entitled 'Privacy and Security of Boards' Records, Documents and Communications' discusses the security needs of retirement system offices.

Board Response:

The Board has requested a separate storage area in the basement area, which will be locked.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Northampton Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$3,030,007	\$1,341,742	\$3,601,984
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	18,019,000	24,424,928	20,769,305
Equities	31,297,801	19,234,026	23,255,618
Interest Due and Accrued	161,095	332,891	317,161
Accounts Receivable	667,116	1,271,096	1,217,818
Accounts Payable	(222,692)	(19,226)	(27,141)
TOTAL	<u>\$52,952,326</u>	<u>\$46,585,458</u>	<u>\$49,134,744</u>
FUND BALANCES			
Annuity Savings Fund	\$13,693,209	\$14,284,399	\$13,651,031
Annuity Reserve Fund	7,123,530	5,261,927	4,867,046
Military Service Fund	3,983	3,943	3,889
Pension Fund	4,322,638	5,202,669	5,707,590
Expense Fund	0	0	0
Pension Reserve Fund	<u>27,808,966</u>	<u>21,832,520</u>	<u>24,905,188</u>
TOTAL	<u>\$52,952,326</u>	<u>\$46,585,458</u>	<u>\$49,134,744</u>

Northampton Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$12,819,322	\$4,414,687	\$5,569,339	\$3,816	\$0	\$29,087,945	\$51,895,109
Receipts	1,880,108	138,026	3,380,374	73	305,124	(4,184,734)	1,518,971
Interfund Transfers	(774,666)	780,508	(7,819)	0	0	1,977	0
Disbursements	(273,735)	(466,175)	(3,234,304)	0	(305,123)	0	(4,279,337)
Ending Balance (2001)	13,651,030	4,867,046	5,707,590	3,889	1	24,905,188	49,134,744
Receipts	1,813,018	138,026	2,930,157	54	312,641	(3,072,669)	2,121,227
Interfund Transfers	(777,729)	777,728	0	0	0	1	(0)
Disbursements	(401,921)	(520,873)	(3,435,079)	0	(312,641)	0	(4,670,514)
Ending Balance (2002)	14,284,397	5,261,927	5,202,669	3,943	1	21,832,520	46,585,457
Receipts	1,871,938	165,313	2,877,365	39	325,865	5,975,011	11,215,532
Interfund Transfers	(2,257,397)	2,255,962	0	0	0	1,435	0
Disbursements	(205,731)	(559,672)	(3,757,396)	0	(325,865)	0	(4,848,664)
Ending Balance (2003)	\$13,693,208	\$7,123,530	\$4,322,638	\$3,983	\$1	\$27,808,966	\$52,952,326

Northampton Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$1,551,197	\$1,486,808	\$1,385,252
Transfers from other Systems	113,750	110,890	208,723
Member Make Up Payments and Redeposits	70,961	30,327	51,402
Investment Income Credited to Member Accounts	<u>136,029</u>	<u>184,993</u>	<u>234,731</u>
Sub Total	<u>1,871,938</u>	<u>1,813,018</u>	<u>1,880,108</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>165,313</u>	<u>138,026</u>	<u>138,026</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	55,652	57,472	44,173
Received from Commonwealth for COLA and Survivor Benefits	55,607	225,430	225,430
Pension Fund Appropriation	<u>2,766,106</u>	<u>2,647,255</u>	<u>3,110,771</u>
Sub Total	<u>2,877,365</u>	<u>2,930,157</u>	<u>3,380,374</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>39</u>	<u>54</u>	<u>73</u>
Sub Total	<u>39</u>	<u>54</u>	<u>73</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>325,865</u>	<u>312,641</u>	<u>305,124</u>
Sub Total	<u>325,865</u>	<u>312,641</u>	<u>305,124</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	20,895	19,883	20,986
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	6,005	7,071	4,715
Excess Investment Income	<u>5,948,110</u>	<u>(3,099,622)</u>	<u>(4,210,435)</u>
Sub Total	<u>5,975,011</u>	<u>(3,072,669)</u>	<u>(4,184,734)</u>
TOTAL RECEIPTS	<u>\$11,215,532</u>	<u>\$2,121,227</u>	<u>\$1,518,971</u>

Northampton Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2003	2002	2001
Refunds to Members	\$177,047	\$274,876	\$199,289
Transfers to other Systems	28,684	127,045	74,446
Sub Total	<u>205,731</u>	<u>401,921</u>	<u>273,735</u>
Annuity Reserve Fund:			
Annuities Paid	559,672	491,738	457,107
Option B Refunds	0	29,136	9,068
Sub Total	<u>559,672</u>	<u>520,873</u>	<u>466,175</u>
Pension Fund:			
Pensions Paid	0	0	0
Regular Pension Payments	2,473,126	2,208,628	2,041,972
Survivorship Payments	246,931	249,854	246,885
Ordinary Disability Payments	90,013	82,536	85,430
Accidental Disability Payments	672,580	630,905	602,457
Accidental Death Payments	151,529	149,009	145,433
Section 101 Benefits	7,208	11,372	12,795
3 (8) (c) Reimbursements to Other Systems	116,008	102,774	99,332
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>3,757,396</u>	<u>3,435,079</u>	<u>3,234,304</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0		
Expense Fund:			
Board Member Stipend	16,500	17,750	18,000
Salaries	79,384	68,387	62,010
Legal Expenses	3,348	3,534	1,577
Medical Expenses	0	86	33
Fiduciary Insurance	3,831	3,145	0
Service Contracts	20,001	6,849	0
Travel Expenses	3,846	6,010	5,457
Administrative Expenses	15,968	28,296	24,109
Furniture and Equipment	5,104	0	8,478
Management Fees	149,136	150,438	156,558
Custodial Fees	28,747	28,146	28,902
Consultant Fees			
Sub Total	<u>325,865</u>	<u>312,641</u>	<u>305,123</u>
TOTAL DISBURSEMENTS	<u>\$4,848,664</u>	<u>\$4,670,514</u>	<u>\$4,279,337</u>

Northampton Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Cash	18018.38	2266.57	\$145,195
Short Term Investments	0	90,831	8,915
Fixed Income	1,940,101	1,547,926	1,432,780
Equities	368,684	389,192	365,125
TOTAL INVESTMENT INCOME	<u>2,326,804</u>	<u>2,030,215</u>	<u>1,952,015</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	0	0
Realized Gains	1,146,407	954,923	882,243
Unrealized Gains	5,051,878	1,191,387	1,523,959
Interest Due and Accrued on Fixed Income Securities - Current Year	161,095	332,891	317,161
Sub Total	<u>6,359,380</u>	<u>2,479,201</u>	<u>2,723,363</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	(559,204)	(475,306)	(343,251)
Realized Loss	(1,055,751)	(3,963,722)	(5,409,194)
Unrealized Loss	(162,976)	(2,217,136)	(2,168,124)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(332,893)	(317,161)	(287,290)
Sub Total	<u>(2,110,825)</u>	<u>(6,973,325)</u>	<u>(8,207,859)</u>
NET INVESTMENT INCOME	<u>6,575,359</u>	<u>(2,463,908)</u>	<u>(3,532,480)</u>
Income Required:			
Annuity Savings Fund	136,029	184,993	234,732
Annuity Reserve Fund	165,314	138,026	138,026
Expense Fund	325,865	312,641	305,124
Military Service Fund	39	54	73
TOTAL INCOME REQUIRED	<u>627,248</u>	<u>635,714</u>	<u>677,955</u>
Net Investment Income	<u>6,575,359</u>	<u>(2,463,908)</u>	<u>(3,532,480)</u>
Less: Total Income Required	<u>627,248</u>	<u>635,714</u>	<u>677,955</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$5,948,110</u>	<u>(\$3,099,622)</u>	<u>(\$4,210,435)</u>

Northampton Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,030,007	5.79%
Short Term	0	0.00%
Fixed Income	18,019,000	34.42%
Equities	31,297,801	59.79%
PRIT Cash Fund		
PRIT Core Fund		
GRAND TOTALS	<u>\$52,346,808</u>	<u>100.00%</u>

For the year ending December 31, **2003**, the rate of return for the investments of the **Northampton** Retirement System was 14.43%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Northampton** Retirement System averaged 5.84%. For the fourteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Northampton** Retirement System was 11.08%.

Northampton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The **Northampton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

December 17, 1986

- 20.03(1) Equity investments shall not exceed 65% of the total book value of the port at the time of purchase.
- 20.03(2) At least 35% but no more than 80% of the total portfolio valued at market : consist of fixed income investments with a maturity of more than one year.
- 20.04(6) American Depository receipts listed on a United States stock exchange or tr over the counter in the United States.
- 20.06(8) Bond Investments Sales of fixed income investments with maturities excee one year shall not exceed 100% of the market value of all fixed inc obligations in any twelve month period, excluding cash and short obligations.
- 20.07(6) Equity Investments Sales of equity investments shall not exceed 50% of average market value of all equity holdings in any twelve month period.

December 21, 1987

- 20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments.

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Northampton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Northampton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 20, 1984

Membership:

Part-time employees who work a minimum of twenty (20) hours a week, shall become members of the Northampton Retirement System, after having been employed for six(6) months at the above mentioned minimum number of hours. Creditable Service will be given on the basis of time for time, based on the normal work week of the department.

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Creditable Service:

Time for time is granted based on the normal work week of the department. In the case of part-time school employees, however, the number of hours worked is divided by 1400 to arrive at one (1) year of creditable service.

Right of Privacy:

Financial records, actual account amounts and medical records of members and former members of the City of Northampton Retirement System are not public records.

National Guard Duty:

Retirement deductions are to be taken only on the funds paid to them from the City, and not from the salary paid to them by the Federal Government. (National Guardsmen receive from the City for their summer tours, the difference between pay from the City and what the Federal Government allows. They do not lose any time in creditable service for the weeks they must spend with the Guard).

Deductions:

It is the policy of the retirement system that any members of the system who have another salaried position within the City must have deductions withheld from both salaries for retirement purposes. This does not apply to persons employed intermittently by the Recreation Department or persons paid as election workers. It applies to employees such as the Planning Department secretary who is also Secretary to the Planning Board and is paid an additional bi-yearly sum for attending monthly evenings meetings and taking minutes.

August 27, 1990

Creditable Service:

“Part-time employees, however, who have worked consistently on a part-time basis for all of their years of employment with the City of Northampton, shall have, upon becoming eligible and applying for the retirement benefits from the City, full-time creditable service granted at such retirement time. Employees who have worked both full and part-time during their years of employment shall have their part-time service prorated and added to their full-time service. Regular compensation for purposes of calculating the retirement allowance, shall be the average of their last three or highest three years of earnings, whichever is greater, of three consecutive fifty-two week years.”

Make-up Payments

Any member in service who, upon approval of the Northampton Retirement Board, wishes to pay into the system a make-up payment of regular deductions, together with regular interest, to purchase creditable service for previous employment in the Northampton Retirement System or any other system within the Commonwealth governed by the provisions of Chapter 32 of the General Laws in which he/she had been a member, shall pay such make-up at the rate of at least \$10(ten) dollars per week for every fifteen hundred (\$1,500.00) of the total amount of accumulated deductions owed. Increments shall be at the minimum rate

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

of \$10 per week, or as determined by the Retirement Board, in order that the total repayment time shall be completed no later than December 31st of the third year from the onset of such make-up payments.”

November 13, 1990

“New employees who have the words ‘Temporary and/or Intermittent’ included in their job descriptions shall not become members of the System due to the nature of these positions. Upon receiving a permanent appointment or a change in job description, the employee shall become a member, provided that he/she meets the requirements for membership outlined in previously approved rules, e.g. part-time employees. Temporary full-time employees who become permanent full-time employees shall have the option of buying back their time to initial date of hire, provided there has been no break in service. This rule applies to former C.E.T.A. employees whose positions have been made permanent, are now City employees, and wish to buy back their creditable service to original date of hire.”

September 3, 1991

“Part-time employees who work a minimum of twenty (20) hours a week shall become members of the Northampton Retirement System. Creditable service will be granted on the basis of time for time based on the work week of the department”.

April 28, 2003

“Part-time employees who work a minimum of twenty (20) hours per week shall become members of the Northampton Retirement System. Creditable service will be granted on a full-time basis for those working at least 20 hours per week on a regular schedule.”

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Christopher B. Pile

Appointed Member: John P. Musante Term Expires: 6/30/07

Elected Member: Russell E. Smith Term Expires: 3/4/05

Elected Member: Shirley A. LaRose Term Expires: 6/30/05

Appointed Member: A. Edwin Putnam Term Expires: 12/31/05

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000/10,000,000 each
Elected Member:)	Chubb, Executive Risk and Travelers
Appointed Member:)	Insurance Carriers
Staff Employee:)	

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Stone Consulting, Inc** as of **January 1, 2003**.

The actuarial liability for active members was	\$43,901,353
The actuarial liability for retired members was	<u>39,368,681</u>
The total actuarial liability was	83,270,034
System assets as of that date were (actuarial value)	<u>51,244,004</u>
The unfunded actuarial liability was	<u>\$32,026,030</u>
 The ratio of system's assets to total actuarial liability was	 61.5%
As of that date the total covered employee payroll was	<u>\$18,225,638</u>

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 4.60% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum

Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$ 51,244,004	\$ 83,270,034	\$ 32,026,030	61.5%	\$18,225,638	175.7%
1/1/2000	\$ 48,305,572	\$ 63,748,449	\$ 15,442,877	75.8%	\$15,833,082	97.5%
1/1/1998	\$ 33,472,000	\$ 53,353,000	\$ 19,881,000	62.7%	\$14,026,000	141.7%

Northampton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	10	15	7	10	11	7	-	13	30	50
Ordinary Disability	3	0	0	0	3	2	-	0	0	0
Accidental Disability	3	2	0	1	1	4	-	3	1	1
Total Retirements	16	17	7	11	15	13	0	16	31	51
Total Retirees, Beneficiaries and Survivors	258	260	258	260	249	253	270	277	299	332
Total Active Members	514	499	534	543	560	585	612	622	638	625
Pension Payments										
Superannuation	\$1,335,768	\$1,492,948	\$1,483,603	\$1,620,684	\$1,665,852	\$1,670,435	\$1,851,816	\$2,041,972	\$2,208,628	\$2,473,126
Survivor/Beneficiary Payments	157,796	109,497	184,595	177,080	206,663	203,738	239,912	246,885	249,854	246,931
Ordinary Disability	90,319	81,945	78,024	78,942	86,524	117,420	106,314	85,430	82,536	90,013
Accidental Disability	294,340	318,267	326,229	366,570	382,019	446,741	556,877	602,457	630,905	672,580
Other	161,726	180,210	173,176	181,124	186,488	212,484	229,118	257,560	263,155	274,745
Total Payments for Year	\$2,039,949	\$2,182,867	\$2,245,627	\$2,424,400	\$2,527,546	\$2,650,818	\$2,984,036	\$3,234,304	\$3,435,079	\$3,757,396

PERAC

Five Middlesex Avenue | Third Floor

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac